INDIANAPOLIS-MARION COUNTY COUNCIL
TAX INCREMENT FINANCING STUDY COMMISSION

PRELIMINARY REPORT OF FINDINGS

April 30, 2012

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Ivy Tech Community College

Indianapolis Art Center

Indianapolis Public Library

Tax Increment Financing (TIF): History and Background[1]

Tax Increment Financing has been used as an economic development tool since it was introduced in the 1950s in California. Since then, with the exception of Arizona, it has been implemented in every state and the District of Columbia. The use of TIF in Indiana began in the mid 1980s, in South Bend, Fort Wayne and Indianapolis. By 2002, it was widely used in the state, in 58 counties.

The initial use of TIF was for redevelopment – to address blight, deterioration and abandoned, difficult to develop regions in urban areas. Over time the use has expanded to include economic development projects with the result being that redevelopment projects were outpaced (at a rate of 3 to 1 between 1993 and 1995).

The purpose of using TIF also has evolved in terms of objective, as it has transformed from generating matching funds for federal grants and to becoming the replacement source of revenue for federal programs (Urban Development Action Grants and others) that were discontinued. Currently, TIF is widely used for infrastructure projects.

What Is a Tax Increment?

The "tax increment" is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after TIF designation. The TIF increment is the additional tax revenue that is generated as a result of new investment in the TIF district. It is used to pay debt that is borrowed on the expected increment or to directly fund the projects and activities used in redevelopment or economic development projects.

TIFs help municipalities attract private development and new businesses to the area. TIF benefits can provide incentive for business owners and developers to invest in deteriorating and decaying areas. In addition, most communities can't afford needed improvements without raising taxes. Investment is enticed to a TIF district by the creation of a public-private partnership between the city and an organization or business that is willing to take on financial risk to develop a property or project. The city uses funds generated from the tax increment for important things such as improved streets and utilities to help defray the expense of costly residential and commercial building projects. In the end, the public within the TIF district benefits from public private investment by increased property values, new jobs, and a stronger tax base.

Strengths and Benefits of TIF

- TIFs help municipalities attract private development and new businesses to the area.
- More politically feasible and highly flexible (e.g., does not require referendum)
- Does not count against local debt limits
- Shifts the risk of redevelopment from taxpayers to bondholders
- Links infrastructure and economic growth
- Implements market based review (if lenders don't believe in the project they won't make the loan)
- Makes redevelopment self-financed

[1] Introductory information includes content from presentations by Bruce Donaldson, Barnes & Thornburg at the March 29, 2012 Commission meeting and from Drew Klacik, Sr. Policy Analyst, IU Center on Public Policy at the April 5, 2012 Commission meeting

WEAKNESSES AND RISKS OF TIF[2]

- Failure to achieve full build out or to realized increasing AV or tax revenue projections
- Changes in tax environment
- Capitalized interest
- Taxpayer equity
- Assumes all increment is caused by redevelopment (or economic development) to the detriment of other tax districts
- Freezing tax base overlooks increased services that other taxing districts may need to provide, particularly in light of property tax caps effect
- Pure TIF bonds bear higher interest rates than general obligation bonds

AREAS OF REVIEW ASSIGNED TO THE COMMISSION

Policies and past practices used in Marion County for the establishment of TIF districts and projects therein

Policies and practices for the establishment of Tax Increment Financing projects and districts in Marion County are subject to state law, under Indiana Code (IC) 36-7-15.1, which is specific to Marion County and its excluded cities; however, the excluded cities may choose to be governed instead by IC 36-7-14. Definitions and use of Tax Increment Finance are subject to rules of the Department of Local Government Finance (DLGF) and the State Board of Accounts Administrative Code under 20 IAC Chapter 2 and 50 IAC Chapter 8, respectively. References to Tax Increment Financing in local ordinance are found in Sec 231-305 (b) (4) and (b) (6), regarding the responsibility and authority of the Department of Metropolitan Development.

By state law, the Metropolitan Development Commission (MDC) serves as the redevelopment commission of the Consolidated City of Indianapolis. The MDC has jurisdiction over the redevelopment district, a special taxing district which comprises the same boundaries as the consolidated city.

The MDC may establish within the Redevelopment District, targeted Economic Development Areas or Redevelopment Areas. The Indiana Code defines a Redevelopment Area as “an area in which normal development and occupancy are undesirable because of lack of development; cessation of growth; deterioration of improvements; character of occupancy; age; obsolescence; substandard buildings; or other factors that impair values or prevent a normal use or development of property.” The Indiana Code defines an Economic Development Area as an area that will create job opportunities or attract, expand or retain business enterprise in a city.

[2] See Impact of TIF on Other Taxing Units from the presentation by Jeff Spalding, City Controller, at the March 26, 2012 Commission meeting

THE TIF LIFE CYCLE

The creation, expansion and operation of TIF districts are governed by state law (IC 36-7-15.1). The City of Indianapolis creates a TIF district through a five-step process.

1. **Initiation**. The first step is to determine the project's feasibility by establishing need, economic benefits, financial feasibility, and area eligibility, and consider the relationship to or impact on the Marion County Comprehensive Plan and whether or not public private partnership opportunities are available. Finally, it is important to conduct the "But For" test, which considers whether a development would occur as desired in the designated area if the incentive of the TIF were not provided.
2. **Formulation**. The next step is the creation of a redevelopment or economic development area plan. Geographic boundaries must be determined first. For a redevelopment area, the area must be found to be deteriorated, aged or obsolete. For an economic development area, there must be a finding of significant economic benefit. The plan also considers the projected timeline and costs associated with area improvements. Identification of the base assessed value and revenue increment and debt financing policies area included in this step. Finally, the plan includes project objectives and the expiration date for the TIF district.

   The expiration date is dependent upon the date the area is established:
   - Before June 30, 1995, no expiration date required
   - Between July 1, 1995 and June 30, 2008 expiration date may not exceed 30 years
   - After June 30, 2008, expiration date may not exceed 25 years after the issue date of the first bond or lease rental obligation payable from the TIF
3. **Adoption**. The adoption phase occurs in three stages, all of which involves communication among and with the affected public, Metropolitan Development Commission (MDC) and the City-County Council:
   a. **Conduct Public Disclosure** – through public forums involving affected areas.
   b. **TIF Area Approval** – Six steps: MDC Declaratory Resolution; Council committee hearing; Council Resolution; Notice of MDC Public Hearing and delivery of Tax Impact Statement; MDC Public Hearing and Confirmatory Resolution; Filings with auditor and Department of Local Government Finance (DLGF) regarding allocation area creation.
   c. **Project/Financing Approval** – Public-private sector agreements are drafted; MDC Resolution pledging TIF is approved; if bonding is to be issued, approvals by MDC and Council are required.
4. **Implementation.** There are two stages within this phase:
   a. **Manage Projects/Construction** – Obtain land; Prepare site; Construction; Post-construction management.
   b. **Manage Project Finances** – Issue debt instruments; Authorize receipt and distribution of tax increments; Generate tax increment to meet debt service payments. Also, prior to each July 15, identify amount of AV needed from the TIF allocation area to meet debt coverage requirements and pass through any excess AV to the base taxing units for the following year's budget.

5. **Termination.** Dissolution of the TIF district involves total assessed value combining the base and the increment which now goes back to the underlying taxing units.

<u>LOCAL POLICY ON TIF ESTABLISHMENT AND STRATEGY AS DEFINED BY THE OFFICE OF THE MAYOR3:</u>

Policies on TIF District Boundaries

The City's current internal policy on TIF includes the following goals:

- Districts should support neighborhood goals and/or quality-of-life plans
- Should connect future redevelopment sites and identify "catalyst projects" within the district
- Corridor-focused – sets the stage for future transit improvements and transit-oriented development
- Should promote connectivity: connecting neighborhoods to anchor institutions (employers, universities), parks, and commercial districts

Uses of TIF - TIF incentives can help pay for project-related expenses including:

- Demolition
- Environmental remediation
- Land acquisition
- Public infrastructure
- Streets
- Curbs/sidewalks
- Utility relocation
- Parking
- Buildings
- Equipment

TIF-supported development projects generally fall into two separate categories:

- City-owned property. The City owns the land and therefore must issue an RFP; developers are selected through a competitive procurement. The City may recommend a TIF incentive to overcome obstacles to development (environmental issues, etc.).
- Community-driven projects. A community organization (CDC, etc.) or anchor institution partners with a developer and requests the City support to fund infrastructure projects. The partners typically request a TIF incentive and negotiate with the City if the project meets the City's criteria.

Considerations in Determining When to Use TIF as an Incentives

Not every project that is eligible for TIF incentives will receive consideration by the City. In making this determination, the City's policy is to ask the following questions:

- Is the project supported by the neighborhood?
- Is the project supported by the local anchor institutions (employers, hospitals, universities)?
- Does the project pass the "but for" test?
- Is the project consistent with the community's quality-of-life or similar plan?
- Does the project generate more than enough increment to support the requested TIF incentive?

How Tax Increment is Collected

Once an allocation area is established, the following steps are taken to collect the tax increment

1. Determine the base assessed value (AV)
   - The base AV is set at the AV as of the immediately preceding March 1
   - The base AV generally includes only the real property AV, but can include personal

[3] From presentation by Deputy Mayor Michael Huber at the March 29, 2012 TIF Commission meeting

property of designated taxpayers.

- If a Housing TIF (HoTIF), the base AV includes only the AV of the land in the HoTIF allocation area. Existing improvements become part of the incremental AV

2. Property tax increases generated from increased AV resulting from new investments in the allocation area (incremental assessed value) are captured in an allocation fund
3. The MDC performs a TIF Neutralization (described later) by July 15 each year.
4. The MDC maintains authority to use the allocation fund for redevelopment or economic development activities and purposes described in the plan

Policies and past practices used in Marion County for the expenditure of TIF district funds and the issuance of debt backed by TIF district funds[4]

In a perfect world, municipal leaders would rather see benefit derived from private investment without having to provide public financing. Unfortunately, in today's competitive world, municipalities that take a wait and see or inactive approach to economic development would lose significant job and capital investment opportunities. It is for this reason that the City of Indianapolis has chosen to get involved financially in certain projects because of their quality of life benefits, job creation, expansion of the property and income tax base, and other important amenities.

Today, private development companies are also going through a tough time economically and as a result they are trying to do deals with the highest return on their investments. Developers recognize their value to a community and have a lot of options where they can invest their money. For example, developing an office building in a downtown or urban core is tougher to do financially because of parking requirements. Compare this to the expanse of property available in the suburbs, and a municipality is faced with having to provide perhaps more incentives in order to get the downtown deals done.

There are two types of projects that get consideration from an economic development or redevelopment stand point. The first type is a project that is done on city-owned land. These projects go through a Request for Proposal (RFP) process and the City selects the one that is the best fit financially. The second project type is one that was brought to the city by a private entity. These projects typically do not get public investment. In the cases that they do, there are certain factors that go into the City consideration of the project:

- But For Test: "But for" our investment, is the project going to happen?
- Is the project transformational? It must have a significant employment component, substantial capital investment, land use improvements, corporate need, and/or valuable and needed amenities.
- Is it a prudent financial decision? Will the project make enough increment revenue to cover the bond debt and is there any return on investment?

Current Marion County TIF districts and associated fund balances, debt obligations and past expenditures

There are a total of 45 TIF districts in 21 allocation areas in Marion County. Of those, 33 districts in 16 allocation areas are located in Indianapolis. 12 districts in 5 allocation areas are located in the excluded

[4] Remarks from presentation by Deron Kintner, Executive Director of the Bond Bank, at the April12, 2012 Commission meeting

cities of Lawrence, Speedway and Beech Grove. Three Indianapolis TIF districts are dormant and have currently pass all AV through to the base units. There are 12 TIF districts (11 in Indianapolis and 1 in Lawrence) with no sunset date. The earliest existing debt maturity is 2013, and the latest is 2038. Expected tax revenue in 2012 (after circuit breaker reductions) totals approximately $99.4 million. Cumulative 2012 debt service is calculated at approximately $70 million. In general, each TIF is a separate entity, and the debt coverage or expenditures for each is dependent on the revenue generated within it. However, there are consolidated TIF funds, which include the pooled funding of two or more TIF Districts. In a consolidated TIF, the revenue or fund balance can be disbursed to pay obligations of any TIF district included in the consolidated area.

The Marion County TIF Summary provides allocation area information (see exhibit i). Detailed information about TIF district and allocation area is provided in the TIF Briefing Book (exhibitii).

Need for new methods to increase transparency of Marion County TIF districts' funds and the expenditure of those funds, including the establishment of an online database of TIF districts' funds and expenditures and periodic reporting of TIF districts' financial data to the Indianapolis City Controller, Marion County Auditor, the Indianapolis-Marion County Council and taxing districts impacted by TIF

Senate Enrolled Act (SEA) 19, passed during the 2012 session sets new annual reporting requirements, which were before nonexistent. The new provision, created in IC 36-7-15.1.36.3, is effective July 1, 2012, and requires the MDC to submit within 30 days after the end of each calendar year, an annual report to the Mayor and the DLGF that provides names of Commission members, officers, employees and their compensation, and the amount and general purpose of expenditures made during the preceding year. The reporting to the DLGF will provide for online access.

As previously noted, until the enactment of SEA 19-2012, there were no standard reporting or accounting requirements specifically for Tax Increment Finance activity. In several instances, information about TIF activity that occurred in distant history was either not available or required significant effort to retrieve. There were no standard reports for providing TIF allocation fund balances, and there appears to be few records or tracking of performance standards that were established during the creation of TIF projects. In addition, a comprehensive list of direct funding from the TIFs is currently being compiled manually, as those items apparently have not been tracked on an ongoing basis.

Need for new methods to increase accountability, including the establishment of new performance standards in the establishment of TIF districts to ensure targeting of TIF districts to revitalize blighted areas of Marion County and job creation;

Establishing performance standards and expected outcomes at the outset of the TIF creation is a key factor to create a basis for monitoring outcomes and determining success in redevelopment or economic development. They provide a basis for reference in determining spending priority, particularly in instances when projects are funded on a pay-as-you-go basis. Performance standards also provide a basis for evaluating future projects. Quality of Life Plans are tools that enable such record keeping.

Currently, there are no standard or periodic reports that track, measure or monitor the TIF outcomes jobs created, improvements done, challenges or difficulties faced regular reporting or monitoring of metrics.

Some examples of widely recognized performance metrics, as identified by City staff[5] and in TIF literature include the following:

- Completion of Specific Infrastructure Projects[6]
    - Sewer expansion and repair
    - Storm drainage
    - Street construction and expansion
    - Park improvements
    - Curbs and sidewalks
    - Traffic control
    - Street Lighting
    - Landscaping
    - Environmental Remediation
    - Bridge Construction and Repair
    - Parking Structures
    - Libraries
    - Emergency Service Facilities
    - Schools
- Ability to meet and make bond/financing payments
- Jobs, by type and compensation level
- Residential Development
- Commercial Development (retail, restaurants, etc.)
- Industrial Development
- Increase in Tax Base (AV), including AV outside the allocation area
- Capital Investment
- Property and Income Taxes
- Minority-, Women-, and Veteran-Owned Participation and Opportunities

In response to a request during the first meeting of the TIF Commission, the Department of Metropolitan Development provided a report of jobs created by selected TIF projects. The list is available in exhibit [iii]

Need for performance goals for private development that receives TIF and methods to provide consequences for the failure to achieve those goals.

See discussion under #5 above. There is an opportunity In setting performance goals, to include the private partners in public-private partnerships created for TIF activity.

Need for a comprehensive economic development plan to ensure the creation and development of TIF districts and projects therein in a coordinated fashion consistent with economic development goals of job creation and community revitalization;

Topic for discussion during Commission deliberation.

Need for periodic review of established TIF districts and projects therein to ensure performance towards economic development goals

Topic for discussion during Commission deliberation

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[5] Presentation by Department of Metropolitan Development Director, Maury Plambeck at the March 29, 2012 TIF Commission meeting.

[6] Examples taken from *Tax Increment Finance Best Practices Reference Guide,* Council of Development Finance Agencies (CDFA) and the International Council of Shopping Centers (ICSC), © 2007

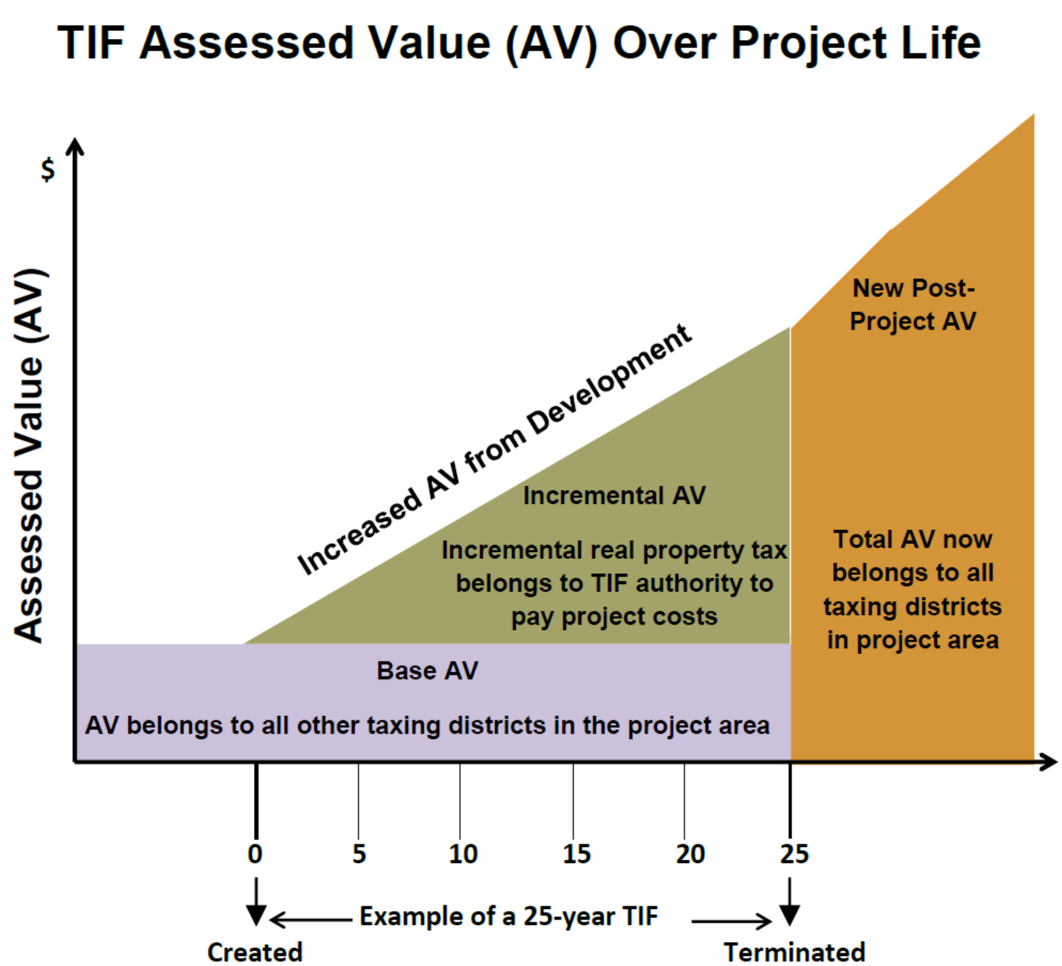
Impact of TIF districts on Marion County taxing districts that depend on property tax revenue and the need to mitigate negative impact to those taxing districts, including development of standards and methods to return excess TIF district funds to those units; and

The annual TIF Neutralization process, described later in this document, provides the opportunity to return excess TIF district funds to base taxing units. Additional discussion about termination of TIF districts in contrast to allowing them to remain dormant will address this issue.

Need to establish methods to dismantle TIF districts that are no longer needed and/or address projects therein that are not achieving economic development goals.

Topic for discussion during Commission deliberation

A Graphical Illustration of Tax Increment Financing – Assessed Value



This diagram illustrates the mechanism for capturing incremental property tax revenue resulting from increasing assessed value (AV) in the development area during the life of a 25-year Tax Increment District.

- The lavender area of the figure represents the base assessed value (AV) that is established when the TIF district is established.
- The yellow area represents the growth of AV that occurs as a result of the development activity within the TIF district. This increased AV generates the incremental tax revenue, which is captured for use within the district, either for debt payments or toward pay-as-you go activity.
- At the end of the life of the TIF, the district is terminated and the entire amount of AV, represented by the orange portion of the chart, is made completely available to the base taxing unit.

FISCAL IMPACTS OF TAX INCREMENT FINANCING

INTRODUCTION

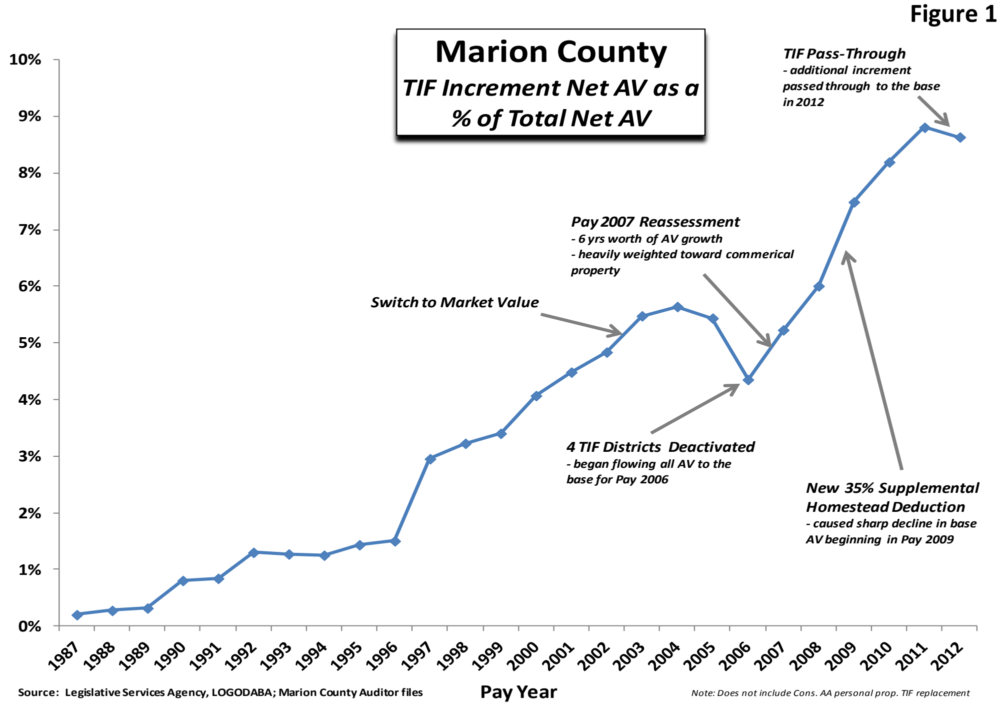
This section presents an assessment of the financial impacts of tax increment financing in Marion County. The Marion County Auditor is the source for information pertaining to assessed value, property tax revenue, and circuit breaker credit. A significant portion of the document is focused on describing the effects of TIF policy issues such as TIF neutralization, the circuit breaker credit, and TIF pass-through decisions. While much of this analysis uses actual data, where hypothetical decisions are tested, Policy Analytics' parcel-level Local Government Revenue model is used to simulate the effects these decisions. This document is intended to serve as a framework for evaluating TIF policy options, and does not represent an endorsement or recommendation of any specific policy option.

ASSESSED VALUE OVERVIEW

Increment AV as a Percent of County Net AV

Figure 1 displays the sum of Marion County TIF increment NAV (including Indianapolis, Beech Grove, Speedway and Lawrence TIFs) as a percentage of the total county NAV from the period of 1987 to 2012. Since 1987, when TIFs were a relatively new policy option, increment NAV has grown to approximately 8.6% of the total county NAV.

Figure 1



The factors that affect significant changes on the above time series are described in the following notes:

2006: The outstanding bonds for four TIF districts (440, 640, 740 and 840) were defeased in 2006. In 2006 and in each year after (as of 2012) these TIF districts were deactivated by the Metropolitan Development Commission. This decision reduced increment AV to 4.35% of County NAV. In 2012, the inactive TIFs returned approximately $720.2 million in assessed value to the Marion County tax base.

2007: In 2007, Indiana first instituted a market-based property assessment adjustment procedure known as "trending". In Marion County, trending was implemented along with a state-ordered special reassessment. The first year of trending adjustments encapsulated market value assessment changes from a 6-year (1999-2005) period. This means the AV difference between the 2006 and 2007 tax years represent six years of changes in market prices. In Marion County, the reassessment increased commercial assessed value at a greater rate than other property classes, exacerbating the effect of trending on TIF districts. The 2007 reassessment caused incremental AV to increase to 5.2% of total NAV.

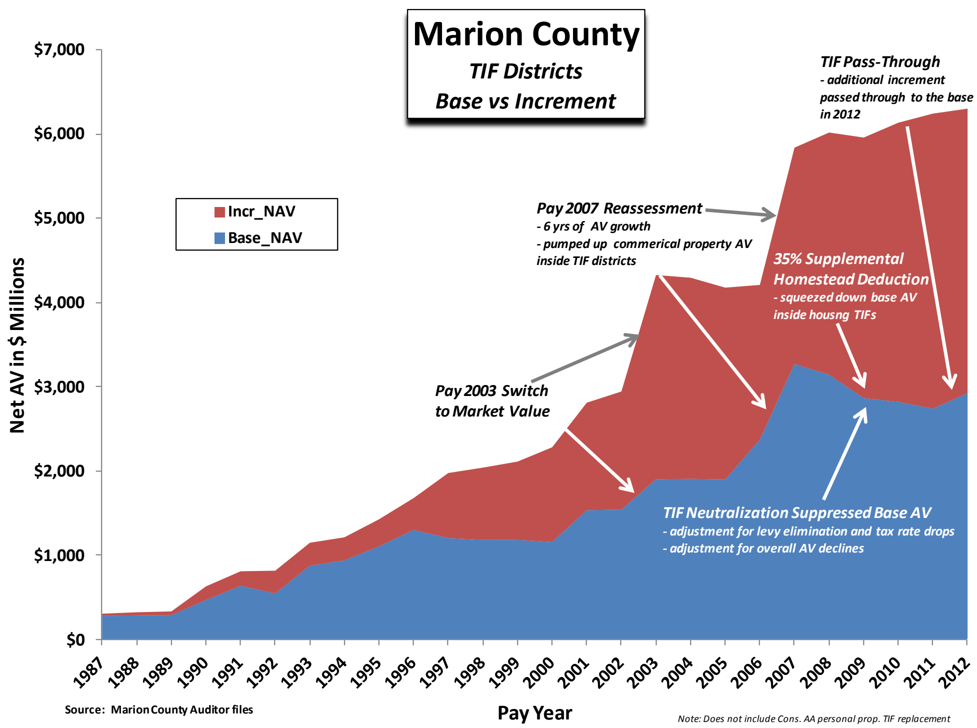
2009: In 2009, among other changes stemming from the 2008 property tax reform, Indiana instituted a 35% supplemental homestead deduction. This deduction reduced the

Marion County tax base by approximately 15%, thereby increasing the ratio of increment AV to total assessed value.

Base and Increment AV History

Figure 2 shows a history of base and increment assessed valuation within Marion County TIF districts from 1987 to 2012. By 2012, Marion County TIF districts contained $2.9M in base assessed value and $3.3M in incremental assessed value.

Figure 2



2003: The state of Indiana implemented market value assessment standards in 2003. The change from True Tax Value (TTV) assessments to market-based assessment caused a general increase in base and increment assessed value.

2007: In 2007, Indiana first instituted a market-based property assessment adjustment procedure known as “trending”. In Marion County, trending was implemented along with a state-ordered special reassessment. The first year of trending adjustments encapsulated market value assessment changes from a 6-year (1999-2005) period. This means the AV difference between the 2006 and 2007 tax years represent six years of changes in market prices

2009: Beginning in 2009, due to a number of factors, the result of the state-mandated TIF neutralization process resulted in a net decrease, or depletion, of the base AV within some TIF districts. Between 2008 and 2011, the total base AV of Marion County TIFs decreased by $400M, or 12.8%.

2012: In 2012, the policy decision was made to pass approximately $200M in increment NAV through to the base. This decision increased the 2012 base AV to within 7% of the 2008 level.

TIF NEUTRALIZATION

TIF neutralization is a legally required process that is intended to neutralize the effect of external factors on the base and increment. This adjustment is required annually in accordance with 50 IAC 8-2-12. The specific procedure is mandated by DLGF and is used throughout Indiana. The TIF neutralization process has three major outcomes:

- Adjust the base assessed value for market value trends (either upward or downward, depending on market conditions). This is to ensure that the AV growth captured in the increment is due to investment, and not simply the result of changes in market price.
- Maintain at least as much incremental revenue in the ensuing year as in the preceding year. This provision is to reduce the redevelopment commission's risk of default, and to protect bondholders in the case of assessed value reductions or policy major changes.
- Provide the basis for the initial debt service projections for the upcoming tax year.

TIF neutralization results in either an increase or a decrease in base assessed value depending on a number of factors. In recent years, the TIF neutralization process has resulted in a decrease in base AV (base depletion) for some TIF districts. The major causes of base depletion in the neutralization process are described below:

1. **Elimination of levies and tax rates due to the State assuming School General and County Welfare levies**

   As part of the HEA 1001-2008 property tax reform, the State assumed the responsibility for funding school operating costs and county welfare functions beginning in 2009. When these costs were transferred to the state, the property tax supported funds and associated tax rates were eliminated. This reduced the overall tax district rate used to generate incremental revenue from TIF districts. Figure 3 shows the reduction in tax rates from 2008 to 2009 as a result of the elimination of the school general and county welfare levies.

   Figure 3

   Property Tax Rate Composition for District 101

	2008	**2009**
City-County Functions	1.3767	1.2147
Center Township	0.0510	0.0578
Library, Indygo, Hospital	0.3521	0.3254
Indianapolis Public School	1.7668	1.1569
Total Tax Rate	**3.5466**	**2.7548**

   The reduced tax rate meant that a given level of incremental AV generated less revenue in 2009 than in 2008. As a result, to maintain a consistent level of revenue and to protect bondholders, the TIF neutralization process requires that a portion of base AV to be moved into the increment.

2. **Introduction of the supplemental standard deduction reduced net assessed values in housing TIF's.**

   A supplemental standard deduction was introduced in 2009 that provided an AV reduction to taxpayers equal to 35% of post-standard deduction AV. This deduction significantly reduced the amount of assessed value in housing TIF's. The TIF neutralization process counteracted this effect by shifting base AV to the increment, and therefore reducing base AV.

3. **The economic downturn had a sustained, negative impact on assessed valuation (both county-wide and within TIF districts).**
   One of the outcomes of TIF neutralization is to make market value adjustments to the TIF base. The recent economic downturn led to depressed property valuations throughout the county, which carried through reductions to the TIF base.
4. **Protection for property tax appeals**
   The TIF neutralization process includes a provision to protect incremental revenue (and thus debt service resources) from property tax appeals. The 2006-07 special reassessment led to an increased number of property tax appeals, especially within the consolidated allocation area. Between 2007 and 2011, approximately 18% of the incremental revenue produced by real estate in the consolidated allocation area was returned to taxpayers in the form of refunds.

   Due to a large backlog of property tax appeals in the County Assessor's office, there remain a significant number of appeals outstanding from prior tax years in TIF districts. Figure 4 shows the number of remaining open appeals by tax year for the Marion County TIF districts.

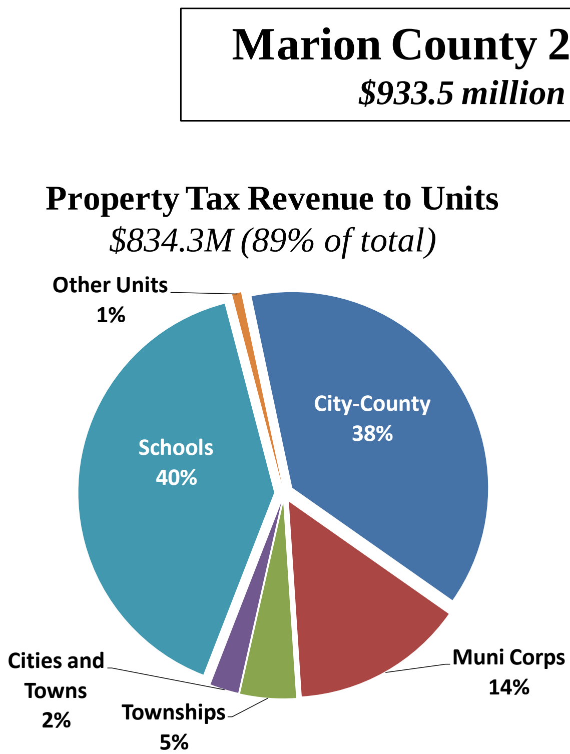
Figure 4

	Tax Year Under Appeal						
TIF Area	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Consolidated Allocation Area	27	53	50	51	79	28	288
Airport Allocation Area	37	60	64	70	145	15	391
Housing TIFs	4	83	127	113	110	109	546
Other Indianapolis TIFs	19	53	85	45	175	134	511
Excluded City TIFs	21	48	46	59	100	27	301
Total	**108**	**297**	**372**	**338**	**609**	**313**	**2,037**

Marion County Property Tax Revenue

When assessing the financial implications of TIF policy, it is important to start from the broader context of the Marion County property tax environment. Property taxes are the largest source of revenue for Indiana local government units (other than schools). In the 2012 tax year, Marion County levied more than $933 million in property taxes (net of circuit breaker). Approximately 89% of Marion County property tax revenues flow to local taxing units. About 52% of non-increment property taxes are allocated to Indianapolis-related taxing units. Indianapolis city functions will receive $318 M in 2012, and the Indianapolis-Marion County Library, Health and Hospital Corporation, and IndyGo will receive a combined $80M. The remaining non-increment property tax revenue is distributed to school corporations, townships and excluded cities.

Figure 5



TIF incremental revenue accounts for approximately 11% of the property taxes billed in Marion County. The Indianapolis Consolidated Allocation area receives the largest share of incremental revenue in 2012 -- $63M, or 64% of the total. The Airport TIF receives 15% of increment revenue, and the other Indianapolis TIF districts share 13%. TIF areas in the excluded cities – Lawrence, Beech Grove and Speedway receive 8% of increment revenue.

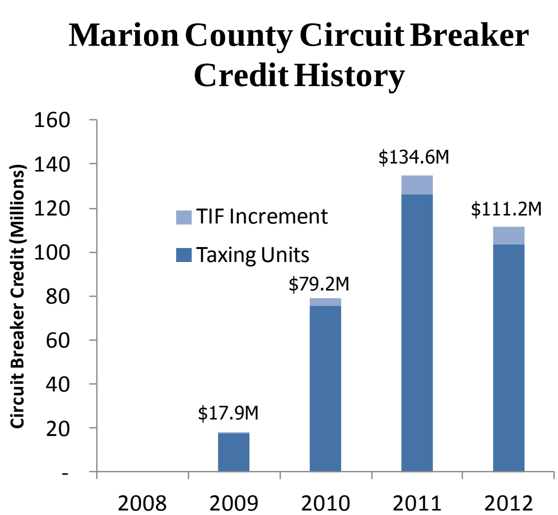
CIRCUIT BREAKER CREDIT OVERVIEW

In 2008, the Indiana General Assembly enacted a series of property tax reforms in HEA 1001-2008 that have significantly altered the landscape of local government finance generally, and tax increment finance specifically. One of the property tax reforms was the institution of parcel level, rate based property tax controls that became known as the "Circuit Breaker Credit." Once fully established, the circuit breaker limited property taxes to 1% of homestead property assessed value, 2% of rental, residential and agricultural land AV, and 3% of AV for all other property taxes. While the circuit breaker credit made property tax obligations much more predictable for taxpayers, it introduced a high degree of uncertainty into local government budgeting.

Prior to the circuit breaker credit, growth in property tax revenue was determined primarily by levy controls. Each year, the State would determine the maximum allowable levy growth rate (based on trends in Indiana non-farm personal income). Taxing units were virtually guaranteed to receive their allowable (certified) levy, regardless of fluctuations in the property tax base. If the tax base increased or decreased in value, movements in the property tax rate would offset that change. Before the circuit breaker credit, property tax levies were determined by governmental units (within State controls), and tax rates adjusted to achieve the appropriate level of revenue.

The introduction of the circuit breaker credit changed the dominant system of property tax control from levy controls to rate controls. Under the circuit breaker credit, property tax revenues are capped at a certain rate, or percent of assessed value. With circuit breakers, the rate is controlled and the property tax levy adjusts to the amount of revenue that can be produced by a unit's tax base. In the post-circuit breaker environment, once all parcels reach the circuit breaker, property tax revenue growth only occurs through growth in the tax base (increase in the market value of the property).

Figure 6



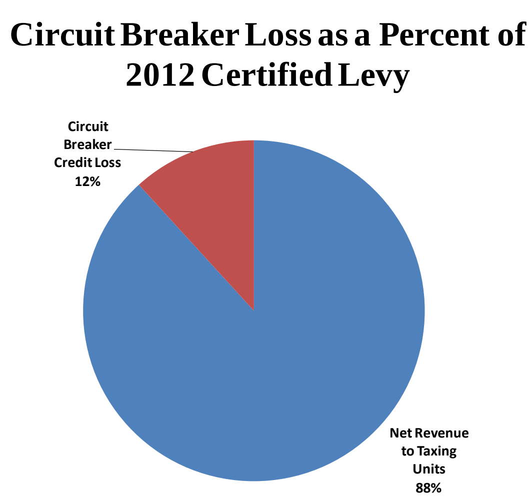


Figure 6 shows the impact of the circuit breaker credit in Marion County. In 2012, the circuit breaker amounted to $111M, or 12% of total property tax revenue. The circuit breaker credit affects both property tax revenue to units, and TIF increment revenue. Approximately 7% of the total circuit breaker loss is absorbed by the TIF increment.

CIRCUIT BREAKER CREDIT AND TAX INCREMENT FINANCING

The introduction of the circuit breaker credit has fundamentally altered the fiscal implications of tax increment financing, and has necessitated changes in how decision makers approach TIF policy. Before circuit breaker credits were in effect, TIF capture did not largely impact a base unit's property tax revenues. If TIF districts captured more assessed value, tax rates adjusted and taxing units did not experience a revenue shortfall. With circuit breakers in effect, an increase in tax rate does not produce a corresponding increase in revenue, and the capture of TIF AV can have negative fiscal implications for taxing units. The table below summarizes the implications of tax increment financing in the pre-circuit breaker and post-circuit breaker environments.

Figure 7

Impact of Circuit Breaker Credit

On the relationship between TIF districts and taxing units

Pre-Circuit Breaker Credit	Post-Circuit Breaker Credit
• Taxing unit property tax revenue determined by levy controls.	• Taxing unit property tax revenue determined by rate controls.
• Maximum levy growth determined by change in Indiana personal income.	• Levy controlled funds act more like rate controlled funds. Homesteads limited at 1%, other residential at 2%, all other property at 3%.
• Revenue growth is virtually guaranteed – tax rates adjust to generate revenue necessary to fund levies.	• Once all parcels reach circuit breaker, revenue growth only occurs through growth in the tax base.
• TIF activity does not largely impact property tax revenue for other taxing units.	• TIF activity can have negative revenue implications through higher circuit breaker losses[1].

[1]This occurs because only base AV is used to set property tax rates, and TIF capture results in a smaller tax base, higher tax rates, and therefore greater circuit breaker losses (see Figure 10 for further discussion of this issue).

TIF Increment Pass-Through Decisions

The primary mechanism available to local governments to manage the relationship between TIF increment and TIF base is the annual TIF pass-through decision. In this decision, the redevelopment commission determines the amount, if any, of excess incremental revenue that should be returned to the TIF base. The 2012 Indianapolis TIF pass through amounts are as follows:

Figure 8

2012 TIF Increment Pass-Through
Dollars in Millions

Allocation Area	AV Pass Through
Consolidated Allocation Area	97.6
Harding Street Redevelopment	55.2
Glendale Redevelopment	15.9
86th St. TIF -Dow Elanco (partially dormant)	273.1
Tibbs Ave TIF - Rolls Royce	8.3
Lawrence 96th St. (dormant)	139.7
Washington 96th St. (dormant)	289.5
Brookville/Senour A.A. (dormant)	17.9
Total 2012 TIF pass-through	**897.4**
Dormant TIF pass-through	*720.2*
Active TIF pass-through	*177.0*

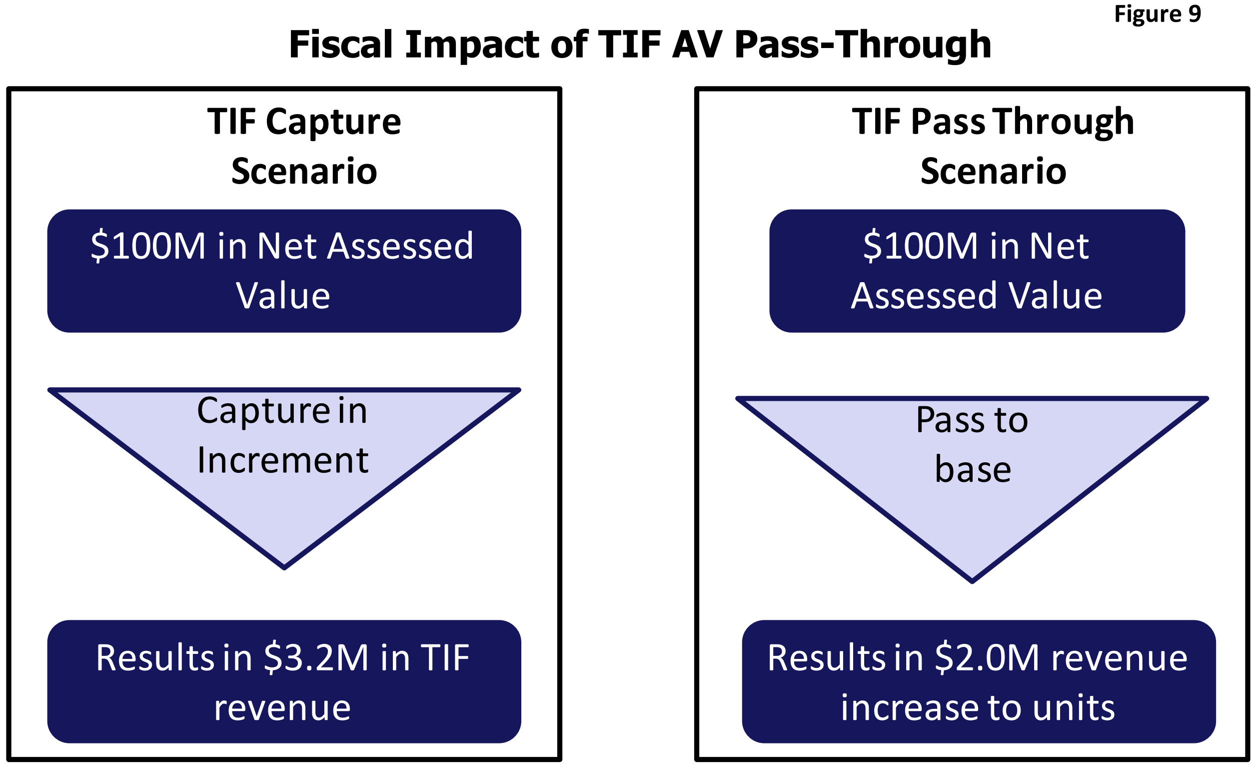
TIF increment was passed through to the base in eight TIF districts. Four of these TIF districts are dormant, and have been inactive since 2006. For the other four TIF districts, 2012 is the first year of increment pass through. Figure 8 does not reflect the decision not to collect Consolidated Allocation Area personal property TIF replacement revenue in 2011 and 2012, which reverted $350M in AV to the tax base in those years.[7]

[7]IC 6-1.1-21.2-12(f) includes a provision to use revenue from personal property assessed value to replace increment revenue lost in the Consolidated Allocation Area due to HEA 1001-2008. This provision was exercised in the 2008-09 and 2009-10 tax years by MDC resolution. Due to sufficient increment revenues, no replacement funds were authorized for capture in the 2010-11 and 2011-12 tax years.

FISCAL IMPACT OF TIF PASS THROUGH

One result of passing AV from the increment to the base is an increase in revenue to local taxing units. Passing assessed value to the base reduces property tax rate, and reduces the circuit breaker impact to taxing units. However, the relationship between circuit breaker relief and increment pass-through is non-linear, and decreases as more AV is released to the base. For example, in Marion County, when $100M of AV is passed through, $3.2M in increment revenue translates to $2.0M in additional property tax revenue to units (63%). If all TIF increment is passed through, $99M in increment revenue would translate to $43M in additional property tax revenue to units (43%). The effectiveness of TIF pass through generating new revenue decreases as the impact of the circuit breaker credit is mitigated.

Figure 9

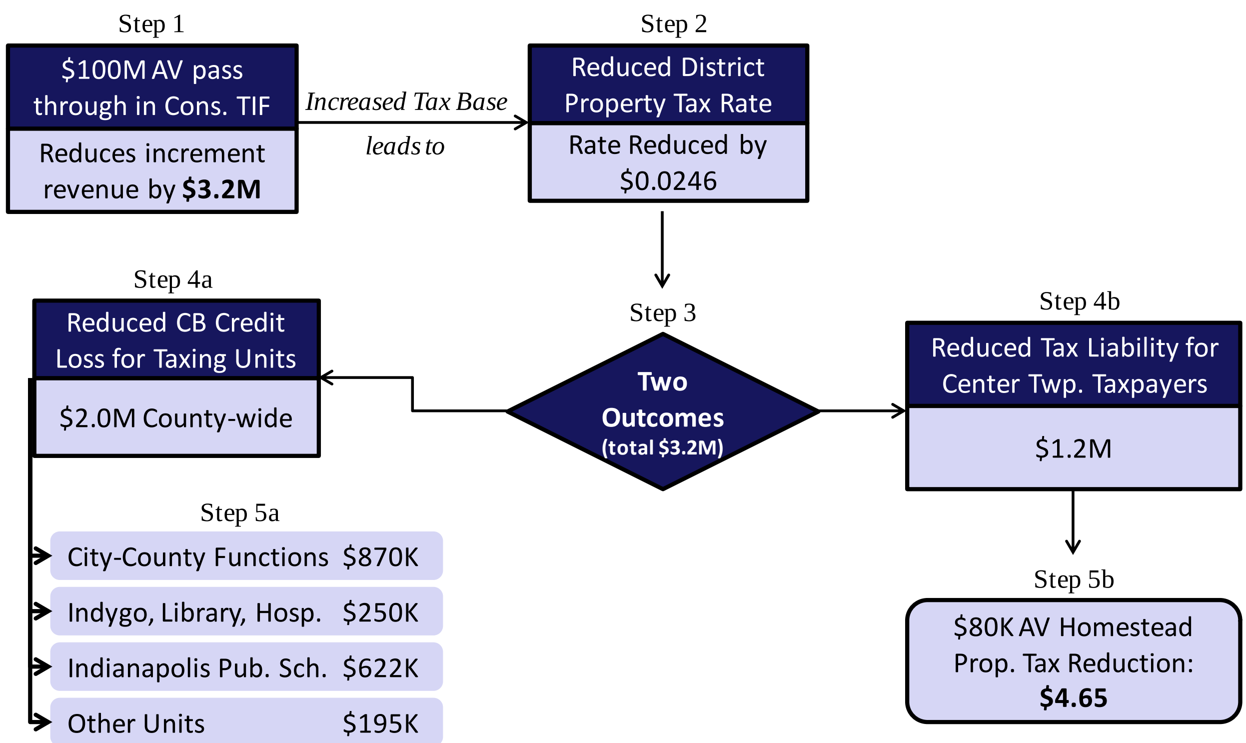


The schematic in Figure 10 shows the simulated results of passing $100M in AV from the increment to the base in the consolidated allocation area. Passing through $100M in increment assessed value reduces increment revenue by $3.2 million. This action results in two outcomes: 1) reduced circuit breaker impact results in an additional $2.0M in revenue for taxing units, and 2) reduced tax rates result in a $1.2M property tax reduction for Center Township taxpayers.

Figure 10

TIF Pass Through Simulation

Modeled using Actual 2012 Data

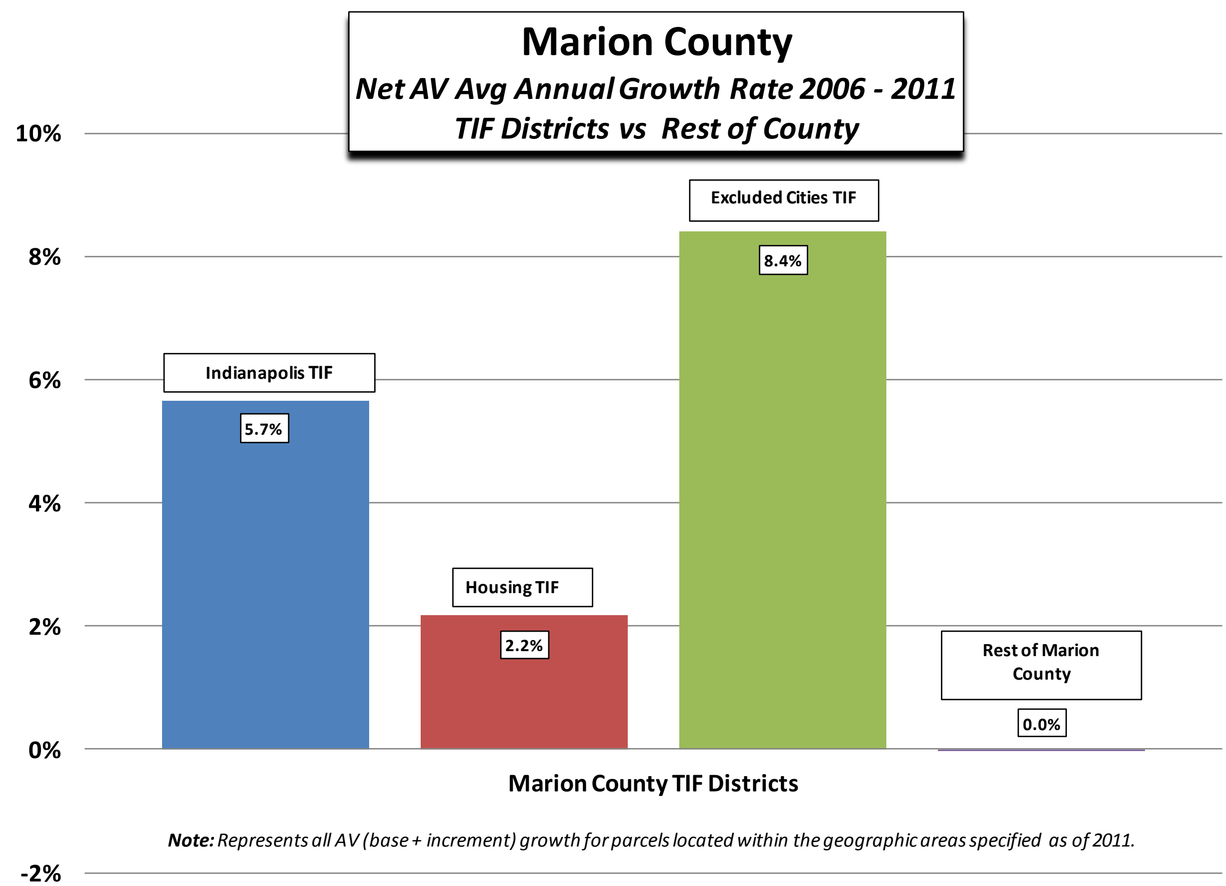


Geographic Location of AV Growth

One of the key realities of post-circuit breaker fiscal policy is that especially for urban areas that are significantly impacted by the circuit breaker, property tax revenue growth is primarily driven by assessed value growth. This means that for a given unit's geography, capturing all of the assessed value growth within TIF districts, even if used for legitimate and prudent economic development and redevelopment purposes, will eventually choke off the property tax revenue growth needed to keep pace with the rising costs of providing public services. As the chart below shows, from 2006 to 2011, the properties within Indianapolis TIF districts grew at an average rate of 5.7% per year, while the AV in the non-TIF portions of the county remained flat.

Prior to the introduction of the circuit breaker, this growth pattern would not have materially affected local government revenues, and taxing units would continue to receive the annual permissible levy growth. However, in the post-circuit breaker environment, if all AV growth is captured within TIF districts, the result will be a stunting of property tax revenue growth to units. This reinforces the need of an active strategy to manage the allocation of AV growth between the general tax base and the TIF increment.

Figure 11



	Indianapolis-Marion County Council TIF Study Commission Policy Review List		TIF Process Step				
			initiation	formulation	adoption	implementation	termination
1	***Policies and past practices used in Marion County for the establishment of TIF districts and projects therein***		●				
1a	Should the primary focus be on redevelopment of stagnant and depressed areas, or economic development of relatively stable areas?		●				
1b	Should there be more transparency of the "but for" determination; for example, published and objective criteria, a specific written finding with supporting documents, and/or independent third-party review?		●				
1c	In selecting a developer, should there be a required RFP/RFQ process unless the MDC can justify in writing the need for a sole source selection?		●				
1d	Should there be published and objective criteria for making the findings necessary to create or expand an economic development area or a redevelopment area?			●			
1e	Should the statute be amended to allow discretionary TIFs that are not "all-or-nothing"; for example, TIFs that get 80% of incremental AV or TIFs that carve out certain taxing units?			●			
1f	Should the base assessment date be concurrent with or closer to the date of the MDC declaratory resolution, in order to keep recent AV increases in the base?			●			
2	***Policies and past practices used in Marion County for the expenditure of TIF district funds and the issuance of debt backed by TIF district fund***					●	
2a	Should the MDC have sole authority to authorize transfers to reimburse the city for still-unidentified previous infrastructure projects, or should the council have a role?					●	
2b	Should the MDC have sole authority to determine how much "excess" TIF is to be returned to the taxing units each year, or should the council have a role?					●	
2c	Should the MDC have sole authority to authorize the transfer of TIF funds for use on projects outside the TIF area (Bush Stadium), or should the council have a role?					●	

	Indianapolis-Marion County Council TIF Study Commission Policy Review List		TIF Process Step				
			initiation	formulation	adoption	implementation	termination
2d	Establish guidelines for determining appropriate reserve levels, pass through decisions, and proportion of a project that can be provided by TIF benefits.					●	
2e	Should all MDC direct payments and expenses from the TIF allocation funds go through a formal appropriation process through the City-County Council?					●	
3	***Current Marion County TIF districts and associated fund balances, debt obligations and past expenditures***					●	
4	***Need for new methods to increase transparency of Marion County TIF districts' funds and the expenditure of those funds, including the establishment of an online database of TIF districts' funds and expenditures and periodic reporting of TIF districts' financial data to the Indianapolis City Controller, Marion County Auditor, the Indianapolis-Marion County Council and taxing districts impacted by TIF***		●	●	●	●	●
4a	Should more information be made available to the public and the taxing units at or before the declaratory resolution stage; for example, draft (or final) public-private sector agreements, "but for" findings, estimated economic/tax impact to the taxing units, etc.?				●		
4b	Should there be a meaningful right to judicial review of the MDC's final action?				●		
4c	Should there be more time between council approval and the MDC's public hearing on the confirmatory resolution? (only 10 days is required now)				●		
4d	At what point should the MDC, the council, and the public be told about other aspects of the overall deal; for example, state incentives, tax abatements, loan guarantees, certified tech park, etc., so that decisions aren't made based on incomplete information?				●		
4e	Establish local reporting requirements, expanding on state provisions in terms of content and frequency.					●	

	Indianapolis-Marion County Council TIF Study Commission Policy Review List		TIF Process Step				
			initiation	formulation	adoption	implementation	termination
4f	Should the MDC engage a third party review of all TIF financials and documentation to establish a uniform documentation, reporting, tracking and monitoring system and to document the TIF process?		●				
4g	Create a pro forma template for use in creation of all TIF districts to ensure an objective process is followed and to allow for tracking of project-specific exceptions and unique characteristics.		●	●	●	●	●
5	***Need for new methods to increase accountability, including the establishment of new performance standards in the establishment of TIF districts to ensure targeting of TIF districts to revitalize blighted areas of Marion County and job creation***		●	●			
5a	Should there be more comprehensive and robust periodic reporting requirements covering financial performance but also jobs and other economic indicators?					●	
5b	How to set and create performance standards that measure positive impact on core neighborhoods and areas immediately surrounding TIF districts.						
6	***Need for performance goals for private development that receives TIF and methods to provide consequences for the failure to achieve those goals***			●	●	●	●
6a	Should companies that benefit from TIF be required to make good faith efforts to hire local, low-income residents for new jobs related to the TIF projects (construction, maintenance, etc.)?					●	
6b	Should companies that benefit from TIF be required to make good faith efforts to subcontract with minority-, women- and veteran-owned businesses?					●	
7	***Need for a comprehensive economic development plan to ensure the creation and development of TIF districts and projects therein in a coordinated fashion consistent with economic development goals of job creation and community revitalization***		●	●			
7a	Should the statute be amended to allow TIF funds to be used for broad-based training and education programs?					●	

	Indianapolis-Marion County Council TIF Study Commission Policy Review List		TIF Process Step				
			initiation	formulation	adoption	implementation	termination
7b	Is there a current, county-wide, comprehensive economic development/redevelopment plan so that proposed projects can be evaluated for conformance to the plan, or are there instances where the TIF area is being created to fit a particular project instead of the project being selected because it is suitable for implementing the comprehensive plan?		●				
8	***Need for periodic review of established TIF districts and projects therein to ensure performance towards economic development goals***				●	●	●
8a	How to preserve the local control and discretion afforded by TIF as an economic tool in the consideration of changes necessitated by the changes in tax policy.						
9	***Impact of TIF districts on Marion County taxing districts that depend on property tax revenue and the need to mitigate negative impact to those taxing districts, including development of standards and methods to return excess TIF district funds to those units***		●	●	●	●	●
9a	Should state statute be amended to allow carve out for specific taxing units, such as schools or libraries?		●	●			
9b	Should there be increased representation of the base taxing districts in the TIF creation process; for example, by having a seat on the MDC or through the requirement of an affirmative letter of support or opposition as part of the documentation process?		●	●			
10	***Need to establish methods to dismantle TIF districts that are no longer needed and/or address projects therein that are not achieving economic development goals.***						●
10a	Can the city now terminate a TIF district before its stated expiration date (or even if there is no expiration date)? If not, should it have that authority and under what circumstances?						●
10b	Are there other mechanisms, short of termination, by which incremental AV can be returned to the base sooner, such as paying off the bonds early or reducing the size of a TIF area?						●
10c	Should the expiration date be shorter than the statutory maximum of 25 years? (The statute permits shorter expiration dates.)			●			

MEETING SCHEDULE			
MTG #	**Date**	**Time**	**Location/Street Address**
The following meeting dates and locations are confirmed:			
1	March 29, 2012	7:00 pm	Ivy Tech Community College 50 West Fall Creek Parkway North Drive, IFC building (IFC 101, Community Room) Indianapolis, IN 46208 Parking directly behind the building (access from 26th Street, turning East off of Capitol Street (26th and Capitol are one-way streets)
2	April 5, 2012	7:00 pm	Indianapolis Art Center 820 East 67th Street Indianapolis, IN 46220 Maps, Directions, Parking Info: Map and Directions
3	April 12, 2012	6:00 pm	Library Services Center 2450 North Meridian Street Auditorium Map and Directions
4	April 19, 2012	6 :00 pm	City-County Building, Room 260 200 East Washington Street Indianapolis, IN 46204 Map and Directions
5	May 3, 2012	6:00 pm	Preliminary Report – Presentation and Discussion Bethel Park Community Center 2850 Bethel Avenue Indianapolis, IN 46203 Map and Directions
6	May 17, 2012	6:00 pm	Hornet Park Community Center 5245 Hornet Ave Beech Grove, IN 46107 Meeting Agenda TBD Map and Directions
The following meeting dates, times and locations are subject to confirmation, pending review of Commission members' availability and the necessity for meeting.			
7	May 17, 2012	7:00 pm	Agenda and Location TBD
8	May 24, 2012	5:30 pm	Agenda and Location TBD
9	May 31, 2012	7:00 pm	Meeting #8 - Agenda and Location TBD
10	June 14, 2012	5:30 pm	Meeting #9 – Present and Discuss Preliminary Draft of Final Report
11	June 28, 2012	7:00 pm	Meeting #10 - Final Report Presented and Reviewed

[i] Marion County TIF Summary
[ii] Marion County TIF Briefing Book
[iii]